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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
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BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON
HOUSE BILL NO. 2606, H.D. 2

March 16, 2016
9:00 a.m.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

House Bill No. 2606, H.D. 2, amends Chapter 88, Hawaii Revised Statutes (HRS), by adding a new section to Subpart C of Part II, to establish a retirement benefit incentive for public employees, otherwise eligible to retire, whose positions are subject to layoff due to the consolidation or abolition of functions, or the privatization of the functions of the position as a result of Act 103, SLH 2015. This measure will sunset on June 30, 2017.

The Department of Budget and Finance strongly opposes this bill that will provide an enhancement to retirement benefits. This measure provides retirement-eligible employees of the Hawaii Health Systems Corporation with a retirement incentive of 1/12 of a year for each year of service, up to a maximum of three years of service credit. The cost for this incentive is unknown at this time but could be significant. Furthermore, it is unclear as to the need for a retirement benefit enhancement for someone who is already eligible to retire.

In addition, this benefit enhancement is counter to Section 88-99, HRS, which places a moratorium on benefit enhancements until such time as the actuarial value of the Employees' Retirement System's (ERS) assets is 100% of the ERS' unfunded actuarial accrued liability (UAAL). This bill will only add to the ERS' UAAL by enhancing benefits to employees who are already eligible to retire.

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
ON

HOUSE BILL NO. 2606, H.D. 2

MARCH 16, 2016, 9:00 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Keith-Agaran, Vice Chair Shimabukuro, and Members of the Committee,

H.B. 2606, H.D. 2 provides for a retirement benefit incentive for members of the Employees' Retirement System (ERS) who are eligible for retirement and serve in positions that have been identified for layoff due to the consolidation or abolition of functions, or the privatization of the functions of the positions under Act 103, Session Laws of Hawaii 2015. These members would be eligible for additional retirement service credit of up to three years.

The Board of Trustees of the Employees' Retirement System (ERS) opposes this proposal.

The board is already grappling with how to deal with the huge negative funding situation created by Act 103, SLH 2015. The loss to the ERS of ongoing employer and employee contributions, even absent of other special provisions, is forecast to increase the plan's unfunded liability substantially. This increase in the unfunded liability may result in higher contribution requirements or the maintenance of existing contributions for a longer period of time.



Employees' Retirement System
of the State of Hawaii

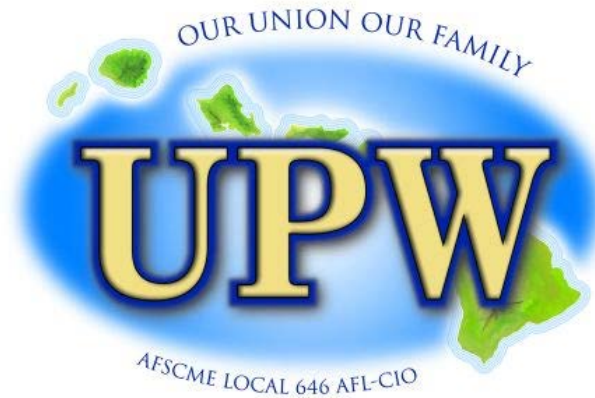
The additional service credit provided by H.B. 2606, H.D. 2 potentially increases an employee's retirement benefit by an additional 3.75 to 6 percent and violates Section 88-99, HRS, regarding the moratorium on benefit enhancements until the ERS is fully funded, while providing no funding for this "special retirement benefit."

The ERS actuary estimates that this enhanced retirement benefit will add \$4.9 million to the unfunded actuarial accrued liability of the ERS. This pales in comparison however, to the expected impact on ERS funding due to the loss of payroll for the employees and the employer due to Act 103, SLH 2015. With the loss of approximately \$100 million in covered payroll, the ERS will receive \$11 to \$15 million less in contributions in fiscal year 2017 towards the payment of its unfunded actuarial accrued liability. The present value of these lost future contributions over the next 26 years is approximately \$213 million. In order to make the ERS whole, the contribution rates for the remaining employers would need to increase by an additional .39 percent.

Other provisions of this bill are also problematic. (1) It is unclear whether the identified members must lose their position as part of a layoff when their position is privatized. In other words, is the member entitled to the retirement benefit incentive even if the member remains employed with the privatized entity? (2) It is also unclear whether the member would be eligible to retire and commence their benefit from ERS even if they have continued employment with the private entity or in another State or county position, this would seem a superfluous benefit if they have continued employment. The identified member could also take the retirement benefit incentive, retire, and then immediately return to work in another ERS covered position. (3) This bill would also set a precedent for an ERS member to receive service credit for "time" in which the member had not actually been employed by the State or a county, serving in the military, or otherwise engaged in a government function.

In opposing H.B. 2606, H.D. 2, the ERS Board reinforces its stance that any benefit provided, however well intended, must include the funding necessary to cover its cost and/or amortize the cost of the benefit over time thereby avoiding any increase in the plan's unfunded liability.

On behalf of the Board of Trustees and staff of ERS we wish to thank you for the opportunity to testify.



THE HAWAII STATE SENATE
The Twenty-Eighth Legislature
Regular Session of 2016

COMMITTEE ON JUDICIARY AND LABOR

The Honorable Gilbert S.C. Keith Agaran, Chair
The Honorable Maile S.L. Shimabukuro, Vice Chair

DATE OF HEARING: Wednesday, March 16, 2016
TIME OF HEARING: 9:00 a.m.
PLACE OF HEARING: State Capitol, 415 South Beretania Street
Conference Room 016

**TESTIMONY IN SUPPORT OF HB2606, HD2 RELATING TO EMPLOYEES' RETIREMENT
SYSTEM**

By DAYTON M. NAKANELUA,
State Director of the United Public Workers (UPW),
AFSCME Local 646, AFL-CIO

My name is Dayton M. Nakanelua, State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO. The UPW is the exclusive bargaining representative for approximately 12,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

HB2606, HD2 Relating to the ERS establishes a retirement benefit incentive for public employees otherwise eligible to retire, whose positions are subject to layoff due to the consolidation or abolition of functions or the privatization of the functions of the position as a result of Act 103 (2015). The bill sunsets on June 30, 2017.

This is an urgent bill. The UPW **strongly supports** HB2606, HD2. We ask the Committee to pass this bill.

Thank you for the opportunity to submit this testimony.

From: mailinglist@capitol.hawaii.gov
To: [JDLTestimony](#)
Cc:
Subject: *Submitted testimony for HB2606 on Mar 16, 2016 09:00AM*
Date: Tuesday, March 15, 2016 11:28:31 AM

HB2606

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Arnold Abe	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
To: [JDLTestimony](#)
Cc:
Subject: Submitted testimony for HB2606 on Mar 16, 2016 09:00AM
Date: Monday, March 14, 2016 9:14:12 AM

HB2606

Submitted on: 3/14/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Candace Tablit	Individual	Support	No

Comments: Being employed in the healthcare industry, I can certainly understand the search for funding alternatives such as partnering with private entities as medical costs increase when reimbursements do not. However, I can also empathize with MMMC employees faced with financial hardship as well as job uncertainty - many after having given the best part of their lives to their careers. Often they have chosen to forgo higher paying opportunities in the private sector for love of the job or adding to the knowledge base of their field of expertise - all with the expectation of a bright future when they retire. I would like to request that you pass this bill so that all HHSC employees may retire in a way that rewards them for their sacrifices, hard work and dedication.

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My name is Rorick Kramer. I have input for
HB 2445 – Relating to Public Employees
HB 2446 – Relating to Separation of Benefits
HB 2606 – Relating to Employees Retirement System

My name is Rorick Kramer. I have been employed with Kula Hospital as a Cook IV Kitchen Manager since August 1, 1997, and I am presently eligible to retire with my full pension on October 1, 2016, when I reach age 62.

I left a good paying job in the hotel to work at Kula Hospital. One of the incentives to work for the State was the benefit package that the State had to offer, one of which was being able to retire at the age of 62.

Due to the Kaiser partnership with the State effective July 1, 2016, and the planned reduction in force effective June 30, 2016, I (and many others) will no longer be employed by the State of Hawaii as a government employee. I will lose the benefit that I worked so hard for. Having had colon cancer in 2010 and a recovering cancer patient, I looked forward to receiving my full pension at age 62.

Consideration and fairness should be given to all those that are displaced from their state jobs in all stages of their employment as this was not our choice to leave government service prior to our planned retirement date.

Thank you for your time and consideration.

From: mailinglist@capitol.hawaii.gov
To: [JDLTestimony](#)
Cc:
Subject: *Submitted testimony for HB2606 on Mar 16, 2016 09:00AM*
Date: Tuesday, March 15, 2016 10:40:01 AM

HB2606

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Suzy Okino	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
To: [JDLTestimony](#)
Cc:
Subject: *Submitted testimony for HB2606 on Mar 16, 2016 09:00AM*
Date: Tuesday, March 15, 2016 8:43:18 AM

HB2606

Submitted on: 3/15/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Thomas Calhoun	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
To: [JDLTestimony](#)
Cc:
Subject: Submitted testimony for HB2606 on Mar 16, 2016 09:00AM
Date: Monday, March 14, 2016 8:22:31 AM

HB2606

Submitted on: 3/14/2016

Testimony for JDL on Mar 16, 2016 09:00AM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Virgil Medeiros	Individual	Support	No

Comments: Please seriously consider passage of this measure to assist the government employees who will be impacted by the privatization of their jobs through no fault of their own. It is the responsibility of this State to lessen the impact of this action to the best of its ability.

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